

**REPORT OF  
FINANCIAL EXAMINATION**

**FREEDOM MUTUAL INSURANCE  
COMPANY**

**AS OF  
DECEMBER 31, 2004**

**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

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November 1, 2005  
Linn, Missouri

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

**FREEDOM MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 4349 Highway 50 East, Linn, Missouri, telephone number (573) 943-2244. This examination began on October 31, 2005, and was concluded on November 1, 2005, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

**Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri

prevailed.

### **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Notes to the Financial Statements**

**Comment:** The Company included a United States Treasury security in the cash on deposit account when the security should be classified as a bond. This reclassification resulted in a \$100,000 reduction in the cash on deposit account. Also, Schedule N should be reduced by this amount and Schedule D should be completed for this bond.

**Company Response:** The Company agrees correct this issue on future statements.

**Current Findings:** The United States Treasury securities were properly reported on statements filed during the examination period.

**Comment:** The cash on deposit account was reduced by the \$100,000 reclassification to bonds and increased by \$5,313 due to an error in reporting the value of a certificate of deposit to the Company by its investments broker. The revised account balance was \$693,707.

**Company Response:** The Company agrees to correct this issue on future statements.

**Current Findings:** The reporting issues regarding cash on deposit in the prior examination were corrected in the statements filed during the current examination period.

**Comment:** The Company incorrectly included software in the cost basis for computer equipment. Software (other than the operating system) is non-admitted. This resulted in a reduction of \$3,055 in the account balance.

**Company Response:** The Company to agrees to exclude software from the computer equipment

balance on future statements.

**Current Findings:** The Company did not report any computer equipment in the 2004 Annual Statement.

**Comment:** The \$5,313 error on the value of a certificate of deposit (described above) was shown as an investment expense. This incorrectly reduced net investment income by \$5,313. This is the difference between the Company reported net income of \$47,510 and the net income per the examination of \$52,823.

**Company Response:** The Company agrees to correct this reporting issue in future statements.

**Current Findings:** The Company appears to have corrected this reporting issue on the statements filed during the examination period.

### **Corporate Records**

**Comment:** The Board should implement a policies and procedures manual to provide guidance in the operation of the Company. The guidance should cover such items as rate setting, claims processing and investment management. Given the Company's level of invested assets, the development of the investment policy is the most critical to be addressed.

**Company Response:** The Company has drafted and approved a policies and procedures manual.

**Current Findings:** The Company currently has a policies and procedures manual in place which adequately addresses the business of the Company.

## **HISTORY**

### **General**

The Company was organized in March 1885, as Osage County Farmers' Mutual Aid Association. The Company was granted a charter of incorporation in 1889. In 1971, the Company changed its name to Freedom Mutual Fire Insurance Company. The Company changed its name to Freedom Mutual Insurance Company in 1999.

The Company has a Certificate of Authority dated April 12, 2000, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Saturday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and each member receives compensation of \$60 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Don Brandt 269 Swan Creek Lane Linn, Missouri	Farmer	2004-2007
Rick Stumpe P.O. Box 318 Linn, Missouri	Teacher/Farmer	2002-2005
Edgar Muenks 332 Winerath Lane Linn, Missouri	Retired	2002-2005
Ronald Baker 703 Highway U Linn, Missouri	Farmer/Carpenter	2003-2006

Dennis Hopke  
1240 Highway J  
Linn, Missouri

Factory Employee

2004-2007

The Board of Directors appoints for a term of one year, a President, a Vice-President, a Secretary, and a Treasurer.

The officers of the Company serving at December 31, 2004, were as follows:

Don Brandt	President
Edgar Muenks	Vice-President
Norman Buschmann	Secretary
Rick Stumpe	Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments have been made to the Articles of Incorporation since the last examination. The Bylaws were amended on May 7, 2002 to change the term "Secretary" to "Secretary Manager."

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company's agents are responsible for obtaining their own errors and omissions insurance coverage.

The insurance coverage appears adequate.

### **EMPLOYEE BENEFITS**

The Company has two part-time employees. The Secretary Manager receives \$200 per month for health insurance coverage. No other benefits outside of annual salaries are provided by the Company to the employees.

### **INSURANCE PRODUCTS AND RELATED PRACTICES**

#### **Territory and Plan of Operation**

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire and wind coverages and markets liability coverages through an organizational agreement with its reinsurer. The Company's policies are sold by three licensed producers, who receive commissions on premiums of 20% for wind coverage, 10% for fire coverage and 7.5% for liability coverage.

#### **Policy Forms and Underwriting Practices**

The Company uses AAIS policy forms. The policies are written on a three year period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are



performed by the agents. Adjusting services are performed the agents, the Secretary Manager, and independent adjusters.

**{PRIVATE }GROWTH AND LOSS EXPERIENCE OF THE COMPANY{tc \1 1 "GROWTH  
AND LOSS EXPERIENCE OF THE COMPANY"}**

{PRI VAT	Admitted <u>Assets</u>	<u>Liabilities</u>	Gross <u>Assessment</u>	Gross <u>Losses</u>	Investment <u>Income</u>	Underwriting <u>Income</u>	<u>Net Income</u>
2004	\$1,195,516	\$0	\$599,767	\$379,215	\$31,227	\$42,581	\$73,960
2003	1,130,361	0	484,168	607,318	29,756	22,860	144,091
2002	986,239	0	421,161	149,427	37,273	35,948	105,297
2001	880,973	0	333,585	201,697	44,733	(3,489)	48,179
2000	832,794	0	314,850	204,844	41,948	(3,769)	38,179

At year-end 2004, 1,064 policies were in force.

**REINSURANCE**

**General**

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

{PRIVATE }	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct	\$314,850	\$333,585	\$421,161	\$484,168	\$599,767
Assumed	0	0	0	0	0
Ceded	<u>(209,571)</u>	<u>(226,761)</u>	<u>(257,575)</u>	<u>(190,305)</u>	<u>(198,156)</u>
Net	<u>\$105,279</u>	<u>\$106,824</u>	<u>\$163,586</u>	<u>\$293,863</u>	<u>\$401,611</u>

**Assumed**

The Company does not reinsure other companies.

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an aggregate excess plan reinsurance agreement for both fire and wind risks. Under the first occurrence of loss excess section of the agreement, the Company retains \$25,000 per loss occurrence and the reinsurer's limit is \$25,000 per loss occurrence. The annual premium rate is based on loss experience with minimum rate of .2945 and a maximum rate of 1.7846 per \$1,000 of adjusted gross risk in force. Under the individual occurrence of loss excess portion of the agreement, the Company retains \$50,000 for each loss occurrence and the reinsurer's limits are \$500,000 for dwellings, commercial and public property and livestock, poultry and horse operations and \$750,000 for farm outbuildings. Annual premium paid to the reinsurer for 2004 was \$.3230 for fire and \$.1069 for wind per \$1,000 of adjusted gross fire risks in force.

Under the aggregate excess portion of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2004 was \$224,899 and the annual premium paid was \$.55198 per \$1,000 of adjusted gross fire risks in force.

Under the facultative reinsurance portion of the agreement the Company may cede risks to the reinsurer that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

The Company also has an organizational agreement with the reinsurer, under which the Company writes liability coverage for the reinsurer. The Company receives a 20% commission on liability premiums written for the reinsurer.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

## **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on a cash basis. The CPA firm of Van de Ven, LLC prepared the 2004 Annual Statement. Prior to 2004 the Annual Statements were completed by the Company.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2004**

Bonds	\$ 591,757
Cash on Deposit	602,359
Federal Income Tax Recoverable	1,400
	-----
Total Assets	\$ 1,195,516
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2004**

Total Liabilities	\$ 0
	-----
Guaranty Fund	\$ 150,000
Other Surplus	1,045,516
	-----
Total Surplus	1,195,516
	-----
Total Liabilities and Surplus	\$ 1,195,516
	=====

**STATEMENT OF INCOME**  
**December 31, 2003**

Net Premium	\$ 401,611
Net Losses Incurred	(233,030)
Other Underwriting Expenses	(126,000)
	-----
Net Underwriting Income (Loss)	\$ 42,581
	-----
Investment Income	\$ 31,227
Other Income	152
	-----
Gross Income (Loss)	\$ 73,960
Federal Income Tax	0
	-----
Net Income (Loss)	\$ 73,960
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2004**

Policyholders' Surplus, December 31, 2003	\$ 1,130,361
Net Income (Loss)	73,960
Investments to Cost and Non-admitted Asset Adjustments	(8,805)
	-----
Policyholders' Surplus, December 31, 2004	\$ 1,195,516
	=====

## **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

None.

## **SUBSEQUENT EVENTS**

None.

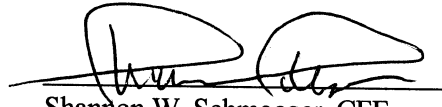
## ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Freedom Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole        )

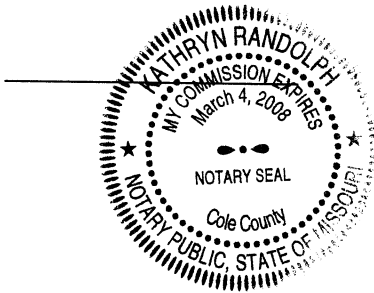
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 14<sup>th</sup> day of December 2005.

My commission expires:

  
Notary Public

## **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read "Frederick G. Heese", written over a horizontal line.

Frederick G. Heese, CFE, CPA  
Audit Manager – Kansas City  
Missouri Department of Insurance